The Conference Board Measure of CEO Confidence™ for Europe by ERT

War in Ukraine and High Energy Prices Will Shape the Global Business Environment for the Long Term

2022 H1 RESULTS

War in Ukraine and High Energy Prices Will Shape the Global Business Environment for the Long Term

The Conference Board Measure of CEO Confidence™ for Europe by ERT
2022 H1 RESULTS

by Ilaria Maselli and Konstantinos Panitsas

Insights for What's Ahead: The Conference Board Measure of CEO Confidence™ for Europe by the European Round Table for Industry (ERT).......................................3

CEO Confidence Plummets in the First Half of 2022 5

Views Align among CEOs in Europe and China...7

Despite a Deteriorating Outlook, Expectations Regarding Employment and Investment Remain Timidly Optimistic 7

Ukraine War Will Keep Energy Prices High, But Will Not Affect European Efforts to Cut Greenhouse Gas Emissions 9

Increase Capacity Within Europe, Recycle and Innovate to Adapt to a Changing Trade Environment 10

The Global Business Environment is Likely to be Very Different in Five Years.....................13

Annex: Details on Expectations for Capital Investment, Sales, and Employment................15

About the Authors 16

About the European Round Table for Industry (ERT)..17

About The Conference Board 17

Insights for What’s Ahead: The Conference Board Measure of CEO Confidence™ for Europe by the European Round Table for Industry (ERT)

- The Conference Board Measure of CEO Confidence™ for Europe by ERT captured CEO views during the second half of April 2022. Confidence plunged to 37 in the first half of 2022, from 63 in the second half of 2021. Expectations for the economy over the next six months are worse compared to the beginning of the COVID-19 pandemic. The unprecedented events that began on February 24th have not only caused a severe security and humanitarian crisis in Europe, but also resulted in a worsening outlook for the region’s economy. Historically high energy prices, renewed supply chain disruptions, as well as eroding consumer confidence, are all putting downward pressure on Europe’s growth prospects.
- What is striking about the 2022 H1 survey is that despite the major change in the international landscape and the large decline in confidence, positive views regarding investment over the short run outweigh negative views, both in Europe and outside Europe. Hiring intentions remain surprisingly stable in Europe, signaling that the labor market should remain strong over the next six months. The outlook for sales declines more visibly but remain in positive territory.
- With April year-over-year inflation at 7.4 percent in the Euro Area, and producer prices growing at double-digit rates, the impact of the war in Ukraine is already being felt by consumers and producers, especially through the increase in energy prices. How long will it take for energy prices to return to prepandemic levels? A large proportion of CEOs and Chairs surveyed (40 percent) believe this will happen from 2024 onwards. More than a third (38 percent) do not expect energy prices to drop back to prepandemic levels at any point of time.
- Passing part of these rising costs onto consumers has been done or is underway in their organizations, according to 84 percent of responding CEOs. Half of business leaders say they are planning to also absorb price increases into profit margins, but 40 percent say this option is not part of their strategy. Despite challenges associated with the current energy crisis, two-thirds of respondents say they do not expect any significant slowing of Europe’s efforts to reduce greenhouse gas emissions by 55 percent in 2030. In fact, many feel that corporate and government climate actions are more likely to accelerate than decelerate over the medium term.

- Five years from now, global production networks will likely look different. Four out of five respondents expect an acceleration in the division of the world into competing economic blocs. A majority of respondents expect the supremacy of the US dollar as a global currency to stay about the same, but 23 percent believe it will decline. How will these changes translate in the European context? Almost eighty percent of CEOs and Chairs surveyed believe that an increasing number of sectors will be considered national security priorities, and two-thirds expect that the war in Ukraine will result in an acceleration of the EU's ability to reach Open Strategic Autonomy. Launched in 2020, the goal of this policy is to reduce dependencies on the import of strategic inputs and promote European values and regulatory standards.
- As a result of the evolving geopolitical environment, a large majority of CEOs and Chairs are accelerating plans to find new suppliers, whereas about half also invest in increased production capacity in Europe. Does that mean reducing dependency on Chinese suppliers? Not necessarily. A third of Chairs and CEOs respond that this is done or under way, whereas 44 percent of respondents say reducing dependency on Chinese suppliers is not considered part of their supply chain strategy. Views are also divided on the medium-term outlook, with 48 percent of respondents expecting decoupling from China will accelerate and 46 percent expecting the decoupling to proceed at about the same speed.

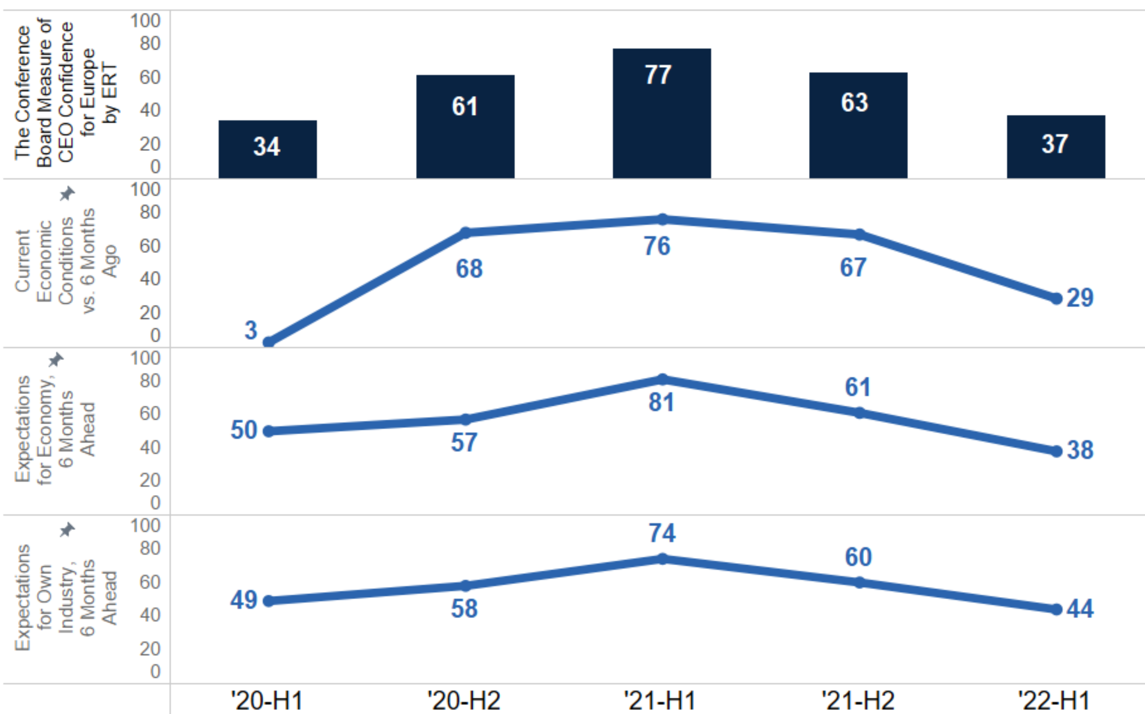
CEO Confidence Plummets in the First Half of 2022

The Conference Board Measure of CEO Confidence™ for Europe by ERT plunges to 37 in the first half of 2022, down from 63 in the second half of 2021.[1] The overall Measure is based upon responses to questions about current economic conditions, and expectations for the economy and own industry six months out. The reading, currently below 50 points, reflects more negative than positive responses. The current level of confidence is similar, albeit a notch higher, to confidence observed in the first half of 2020, after the start of the pandemic.

Chart 1

CEOs' expectations for the economy in the short run drop noticeably

Evolution of The Conference Board Measure of CEO Confidence™ for Europe by ERT and its sub-components



Note: A reading above 50 indicates more positive than negative responses. 56 CEOs responded to the survey.
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H1*

Russia's invasion of Ukraine has not only caused a major security and humanitarian crisis, but also resulted in a rapidly worsening outlook for the region's economy. As a result, The Conference Board has downgraded the Euro Area's GDP growth forecast to 2.6 percent

[1] To access and download the historical data, please visit Data Central at: https://data-central.conference-board.org/

for 2022 and 1.5 percent to 2023. Growth in 2022 was expected to be almost 4 percent before the start of the war in Ukraine.[2]

Current conditions worse versus six months ago. This subcomponent of the overall Measure drops by more than half in our most recent survey, from 67 to 29, the second lowest reading in the survey's two-year history. At the beginning of Q4 2021, businesses were facing challenges due to COVID-19-related disruptions, such as elevated transportation prices, higher input costs, and supply chain bottlenecks. Yet, CEOs were optimistic about growth prospects. The war in Ukraine, however, has exacerbated those bottlenecks and created new ones. Moreover, new challenges have emerged related to protecting employees and partners in Ukraine, and pressure to pause or cease business in Russia. The war in Ukraine adds to the supply chain challenges posed by the lockdowns in China due to a resurgence of COVID-19 and the increased recession risk in the U.S. Against this backdrop, 80 percent of respondents are pessimistic about current conditions.

Expectations for the economy over the next six months dropped markedly. Business views about the short-term economic outlook also decline noticeably, from 61 in 2021 H2 to 38 in 2022 H1. Expectations today are weaker than at the start of the pandemic, in 2020 H1. With the duration and the scope of the war in Ukraine still uncertain, 61 percent of CEOs and Chairs believe the outlook will worsen over the next six months. Another 21 percent of respondents expect the outlook to remain about the same, while 18 percent believe the economy will improve in the short-term.

Views regarding prospects for their own industry declined on average, but different industries are experiencing different challenges. This is likely due to the uneven impact the war in Ukraine will have on industries. For example, energy-intensive industries are more vulnerable to high energy prices and potentially rationing of supplies, while energy producers tend to benefit from higher prices. Almost 40 percent of respondents foresee no changes in the outlook for their own industry in the near term. Another 45 percent expect conditions in their industry will worsen, while the remaining 18 percent say conditions will improve.

---

[2] The Conference Board Global Economic Outlook, May 2022 update.

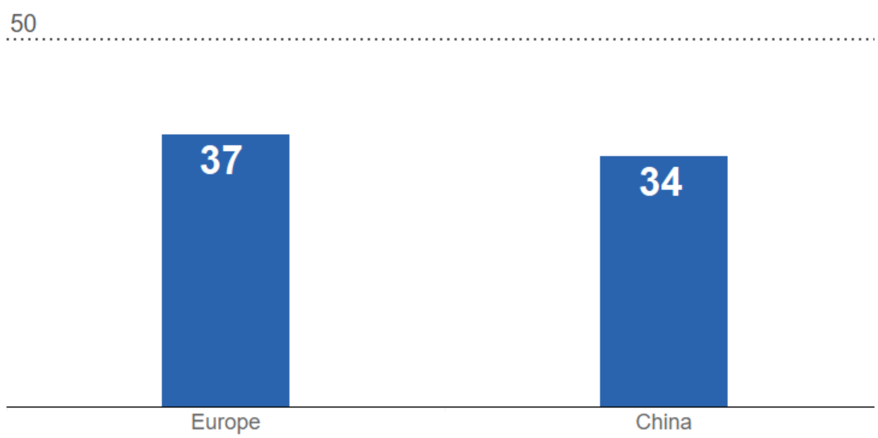
Views Align among CEOs in Europe and China

In parallel with the US and European CEO surveys, "*The Conference Board Measure of CEO Confidence for China*" was also launched in April. In the newly introduced Chinese edition of this barometer, thirty China CEOs of US and European multinational companies provide a similar assessment regarding current and future business and industry conditions compared to their European counterparts. The overall measure of confidence stands at 34 points. The war in Ukraine has stoked inflationary pressures and created additional supply chain problems before those related to the pandemic were resolved. The recent COVID-19 outbreaks and the Zero-COVID-19 policy have further clouded the region's growth outlook. China-based CEOs, compared to those in Europe, are more pessimistic about the current economy, but also marginally more optimistic about the outlook for the next six months. Views regarding prospects for their own industry are equally pessimistic in both groups.

Chart 2

Views of China CEOs align with those from Europe

The Conference Board Measure of CEO Confidence™



Source: The Conference Board Measure of CEO Confidence™

Note: A reading below 50 denotes more negative than positive responses. In China, CEOs were surveyed between April 14 to April 28, while CEOs in Europe between April 12 through April 26. 30 China CEOs and 56 CEOs and Chairs in Europe responded to the survey.

Despite a Deteriorating Outlook, Expectations Regarding Employment and Investment Remain Timidly Optimistic

What is striking about the 2022 H1 survey, is that despite the major change in the international landscape and the large decline in confidence, positive views regarding investment, sales, and employment over the short run outweigh negative views, both for Europe and outside Europe. A possible explanation may be that despite the downward revisions and amplified uncertainty, economy growth will be above trend in 2022 in many mature and emerging economies.

Despite a weaking economy, CEOs remain somewhat positive about hiring intentions in Europe. European CEOs and Chairs maintain their positive views about the employment outlook over the next six months. Employment expectations in Europe remain at 54, which is a relatively high level by the survey's historical standards.

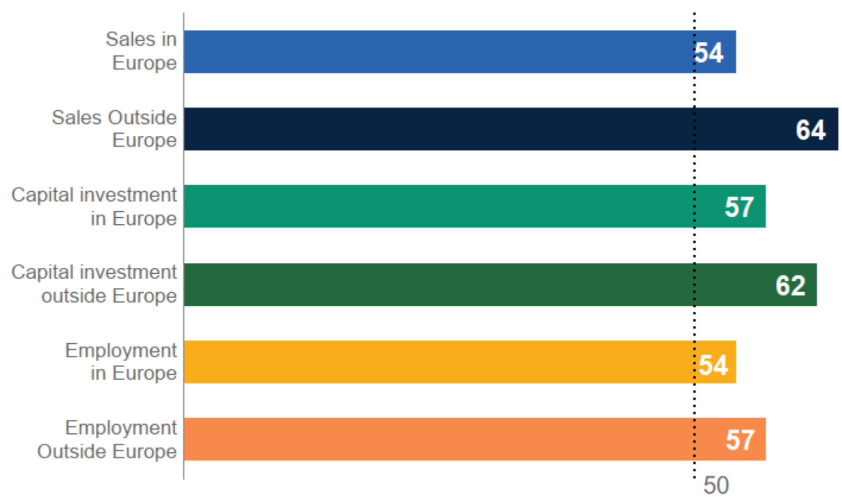
Sales expectations deteriorated. Compared to the second half of 2021, expectations for sales decline both for outside Europe and for within, although the drop is more pronounced in the latter. Despite the decline, expectations remain positive overall—presumably in anticipation of the lifting of remaining COVID-19-related restrictions. Still, amid high global inflationary pressures and declining consumer confidence, private consumption is likely to remain subdued in the short term, a view also echoed by CEOs.[3]

Increased investment may offset the Ukraine war shock. Compared to 2021 H2, expectations for capital investment have deteriorated. However, the fact that both measures in Europe and outside Europe remain in positive territory is an encouraging sign. Several factors may explain such results. Some companies may be reluctant to revise investment plans unless of further drastic changes. Other businesses may invest to accelerate their efforts to reduce dependency on Russian energy and build a stronger basis for the use of recycled materials.

Chart 3

Expectations regarding employment, sales, and capital investment, albeit lower, remain all into positive territory

Over the next six months, what do you expect will happen with your company's…



Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H1*
Note: A reading below 50 points reflects more negative than positive responses. 56 CEOs responded in the survey.

[3] Economic Sentiment and Employment Expectations further down in the EU and the Euro Area, Business and consumer survey results for April 2022, European Commission.

Ukraine War Will Keep Energy Prices High, But Will Not Affect European Efforts to Cut Greenhouse Gas Emissions

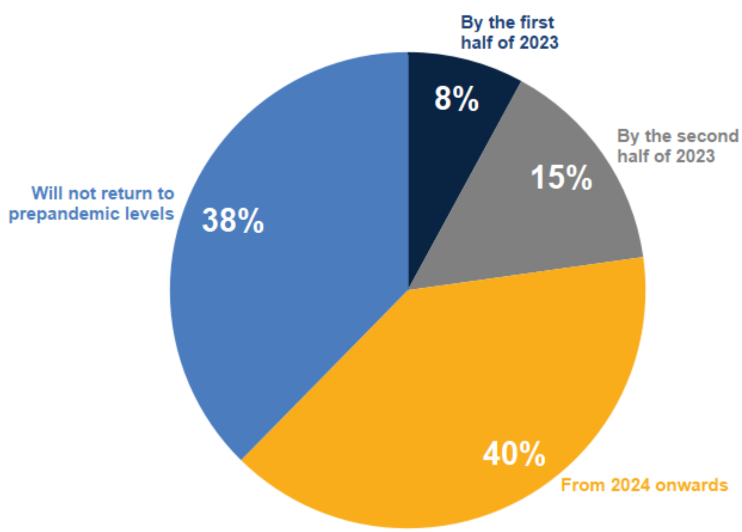
Energy price increases triggered by the war in Ukraine have already negatively affected European businesses and consumers. Euro Area inflation in April was at its highest point since 2001, caused in large part by soaring energy prices. At the same time, producer prices in manufacturing surged and are well above their long-term average since January 2021, standing at 37 percent year-over-year in March. When energy prices are excluded, the figure remains nonetheless high, at 14 percent.

How long will it take for energy prices to return to prepandemic levels? Forty percent of business leaders believe this will happen sometime in 2024 or later. More than a third (38 percent) do not expect energy prices to return to prepandemic levels. None of the respondents believe energy prices will return to prepandemic levels in the second half of 2022, and only 23 percent expect a return to prepandemic levels sometime in 2023.

Chart 4

One third of CEOs in Europe do not expect energy prices to ever return to prepandemic levels

When do you expect energy prices to return to 2019 (prepandemic) levels?



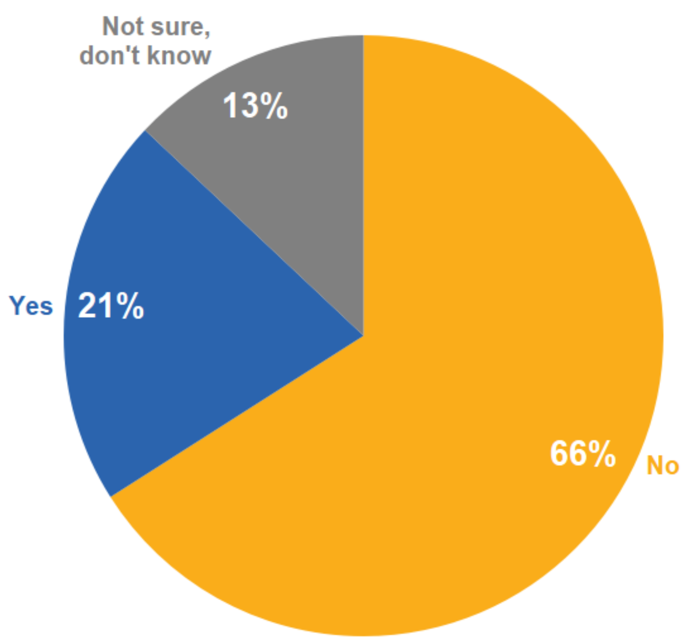
Note: 48 CEOs responded to this question
Source: The Conference Board Measure of CEO Confidence *for Europe by ERT, 2022 H1*

Yet, not all news is bad news on the energy front. Current energy supply challenges offer business leaders an opportunity to accelerate efforts towards reducing or even eliminating dependence on Russian fossil fuels and to invest in greener solutions. These actions may help achieve the EU's objective of reducing greenhouse gas emissions (GHG) by 55 percent by 2030. In fact, two-thirds (66 percent) of respondents say that the current energy crisis will not significantly slow Europe's efforts to reduce greenhouse gas emissions by 55 percent in 2030.

Chart 5

Most CEOs do not expect the current energy crisis to slow the EU's effort to curb greenhouse gas emissions

Do you expect the current energy supply challenges brought about by the war in Ukraine to significantly slow the EU's efforts to reach the target of reducing greenhouse gas emissions by 55% in 2030?



Note: 56 CEOs responded to this question
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H1*

Increase Capacity Within Europe, Recycle and Innovate to Adapt to a Changing Trade Environment

Natural disasters, trade wars, the COVID-19 pandemic, and now the war in Ukraine have put global supply chain networks in distress. European CEOs and Chairs were asked to identify what strategies they plan to or have already employed to adapt their supply chains to the evolving geopolitical environment. To put things into a global perspective, a similar question was also given to CEOs in China in the new Chinese edition of the CEO Confidence survey launched by The Conference Board.

- **Increasing capacity within Europe is a strategy focus, but firms cannot decouple from China.** Finding new suppliers of raw materials/commodities within Europe is a top priority with 9 percent of CEOs and Chairs in Europe saying they have already done so and almost an additional 70 percent saying efforts are underway. Close to a majority (47 percent) say plans to expand production capacity within Europe are underway, and another 4 percent say they have already done so. In line with their European counterparts when it comes to localization, 50 percent of China-based CEOs intend to invest in additional production capacity domestically, while another 10 percent have already done this.

- **Does sourcing more in Europe mean reducing dependency on Chinese suppliers?** Not necessarily. Reducing dependency on Chinese suppliers is not being considered part of the supply chain strategy, according to 44 percent of European respondents. On the other hand, more than a third say they have either begun reducing their dependency or plans to do so are underway, a significant share with potentially large consequences for both markets.
- **Recycling and innovating their way out of the crisis.** Sixty nine percent of European respondents say efforts to increase reliance on recycled materials are underway and another 11 percent say they have already implemented these actions. At the same time, two-thirds of European respondents are investing in R&D to help solve shortages of materials. Among China CEOs, views are similar on the greater use of recycled materials and higher R&D spending to address today's material shortages. That said, in China such views were slightly less prominent, with 63 percent stating they plan to rely more on recycling materials and half saying they plan to invest in R&D to deal with material scarcity.
- **Taking a closer look at supply chains.** More than 80 percent of respondents in Europe have either increased or are planning to increase transparency within their tier-2 and tier-3 suppliers. There are several likely drivers behind this need: on the one hand, the risk of secondary sanctions related to the war in Ukraine, on the other an overarching necessity to map vulnerabilities to increase supply chains resilience.
- **Rethinking how to move goods.** Skyrocketing oil prices, higher shipping rates, and closed airspaces have prompted CEOs to adapt and choose alternative ways of moving goods and products without disrupting business. Diversifying forms of transportation is a popular strategy among European CEOs, with more than 80 percent saying they have either changed their transportation strategies or are planning to do so. Views differ from China CEOs, where a smaller share (53 percent) stated that diversifying forms of transportation is done or underway.
- **Higher prices being passed on to consumers/end users; half of respondents say rises to be absorbed into profit margins.** Passing part of rising costs to consumers is already done or underway, according to 84 percent of CEOs in Europe. Fifty one percent of respondents say they are planning to also absorb price increases into profit margins, but for 40 percent of respondents this is not part of the strategy. As for the China CEOs almost half (47 percent) say that absorbing prices increases into profit margins is not part of their strategy.
- **Despite challenges to sourcing certain inputs and exorbitant energy prices, most companies do not plan to pause or cease product lines.** Pausing production of

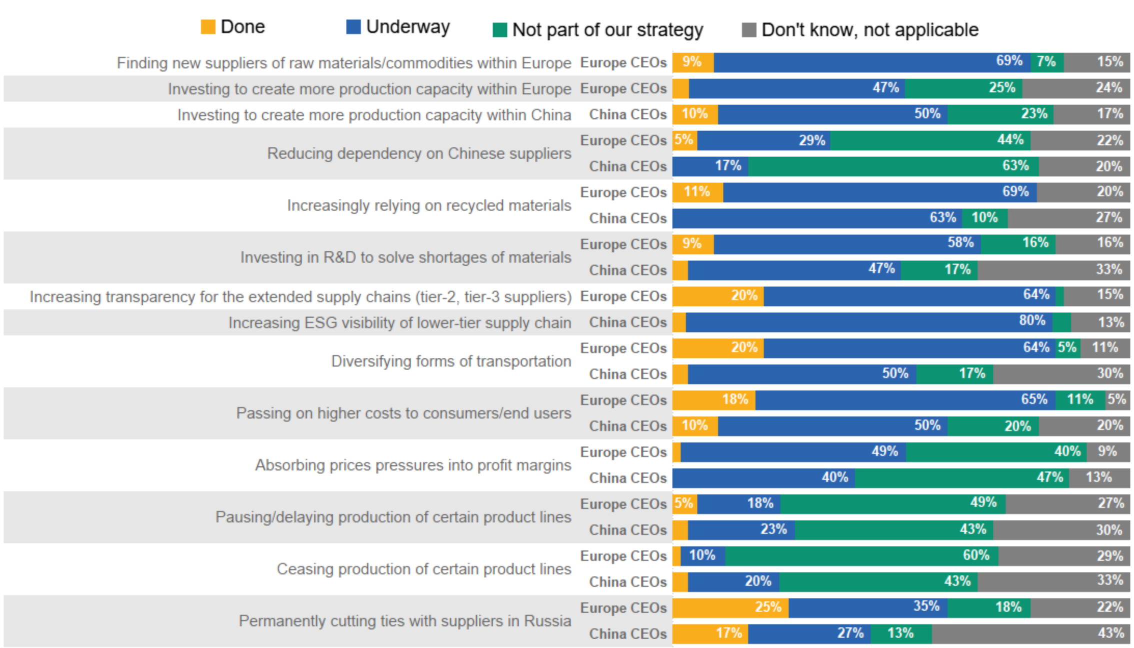
certain products has already been done or is underway for just 24 percent of respondents in Europe, and 26 percent in China. Another 12 percent have ceased or are planning to cease certain product lines in Europe, 23 percent in China. Most respondents are not considering the option of pausing or ceasing production.

- **Companies increasingly expected to take a stance on major political and social events.** Sixty percent of CEOs in Europe say they plan to or have already permanently cut ties with suppliers in Russia, while 18 percent say this is not part of their strategy. Contrary to the European view, China CEOs have weaker intentions to permanently cut ties with suppliers in Russia, but 43 percent say they don't know or this issue does not apply to them. A Conference Board study details how difficult it is for each business to find a balance between not helping the Russian government to sustain the war in Ukraine, and not abandoning employees, customers, and partners in Russia.[4]

Chart 6

Increasing capacity domestically, innovation, and more transparent supply chain networks are executives' top priority amid a challenging trade environment

How is your company adapting supply chains to the evolving geopolitical environment?



Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H1*

---

[4] See here for an overview of the challenges associated with each decision: The Challenge of Deglobalizing Russia, The Conference Board, April 2022.

The Global Business Environment is Likely to be Very Different in Five Years

A major event like the war in Ukraine is likely to accelerate many pre-existing trends. As a result, the global business environment will likely look very different in five years.

- 80 percent of respondents in Europe expect acceleration of the division of the world into competing economic blocs. Forty eight percent also expect to decouple from China faster than previously expected, although another 46 percent expect the decoupling to proceed at about the same speed.
- 77 percent of respondents expect stakeholders' pressure on business to take a stand on political/social issues to increase.
- A majority of respondents expect the supremacy of the US dollar as a global currency to stay about the same, but 23 percent believe it will decelerate. Meanwhile, the use of cryptocurrencies is more likely to accelerate than to decelerate, but views are scattered on the subject, with 36 percent of respondents choosing "don't know or not applicable".

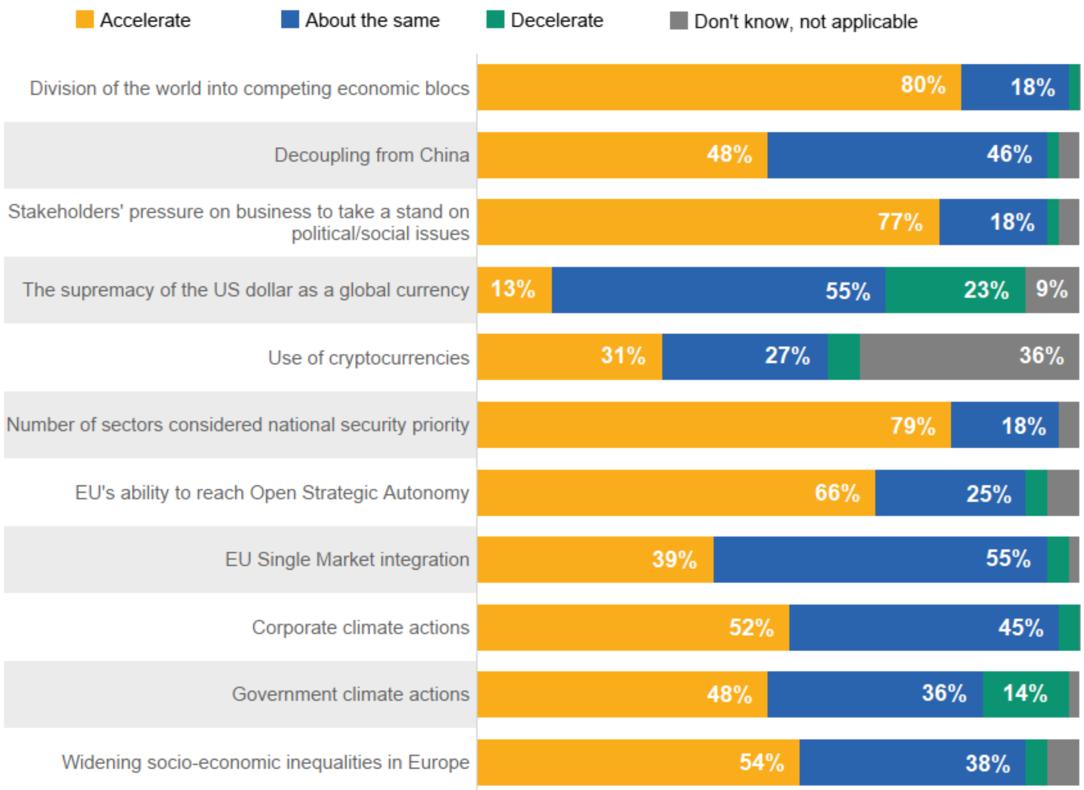
How will these changes translate in the European context? Some 80 percent of CEOs and Chairs surveyed believe that an increasing number of sectors will be considered national security priorities, and two thirds of them see that the war in Ukraine will result in an acceleration of the EU's ability to achieve Open Strategic Autonomy. Launched in 2020, the goal of this policy is to reduce dependencies on the import of strategic inputs, and to promote European values and regulatory standards.

Along with the effort to reduce external strategic dependencies, 55 percent of respondents think that EU Single Market integration will stay about the same, while almost 40 percent expect integration to accelerate. On the climate policy front, corporate and government climate actions are also likely to accelerate. In the new geopolitical context and business environment, a majority of CEOs think that socio-economic inequalities are likely to widen in Europe.

Chart 7

The war in Ukraine will result in a different global business environment

How do you think the war in Ukraine will impact the following trends over the next five years?

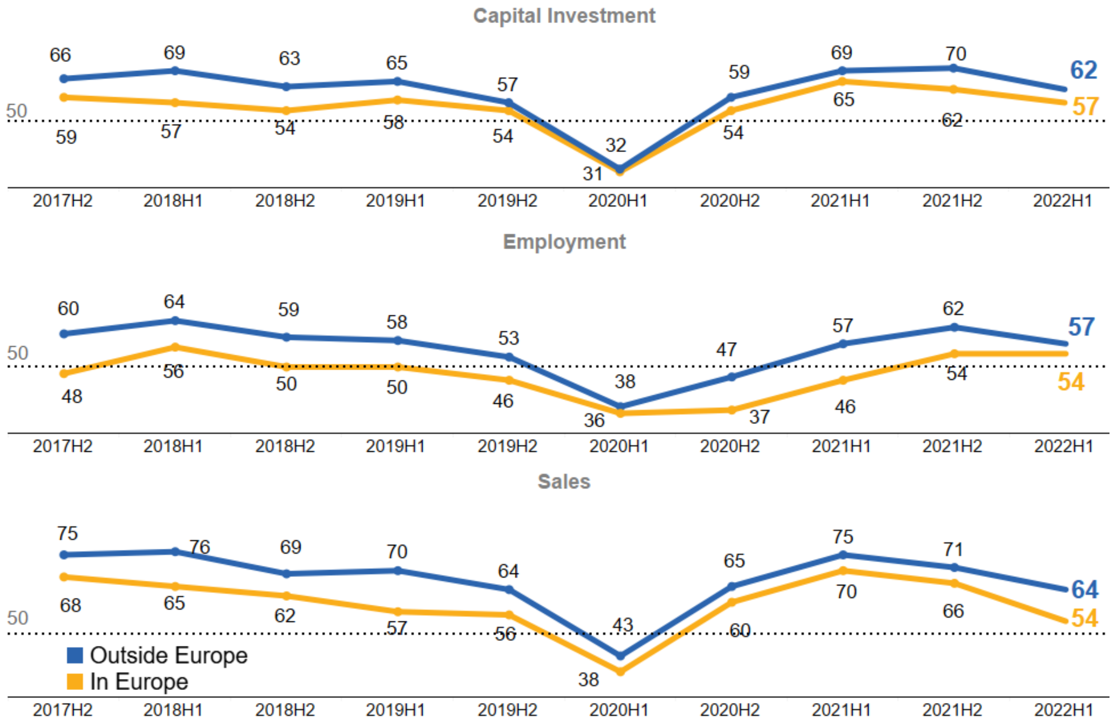


Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H1*

Annex: Details on Expectations for Capital Investment, Sales, and Employment

Chart 8

Trends in Capital Investment, Employment, and Sales
Within and Outside of Europe



Note: A reading below 50 denotes more negative than positive responses
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H1*

About The Conference Board Measure of CEO Confidence™ for Europe by ERT

The Conference Board and ERT have established a collaboration to create a new measure of CEO Confidence for Europe since 2020. The measure ranges from 0 to 100. A reading of less than 50 reflects more negative than positive responses.

The measure is based on results from three survey questions about: 1) business and economic conditions now; 2) conditions in six months; and 3) prospects for respondents' own industries. These questions have been surveyed by The Conference Board in the United States on a quarterly basis since 1976. The survey is conducted twice a year in Europe.

In addition to the confidence measure, CEOs and Chairs also assess the outlook for their own company through questions about employment, sales, and capital investment, inside and outside Europe. ERT has fielded these survey questions since the second half of 2017. Special questions of current significance are included in each survey.

The latest survey was fielded between April 12 to April 26, 2022, to 57 ERT members. Fifty-six replied to the regular questions, resulting in a response rate of 98%. More than 50 replied to the special questions. The Measure of CEO Confidence survey was circulated in China between April 14 and April 28 to 42 CEOs and Executives. The response rate was 73 percent.

About the Authors

Ilaria Maselli has been the Senior Economist for Europe at The Conference Board since March 2016. Maselli monitors the monthly business cycle of the European economy and contributes analysis to *The Conference Board Global Economic Outlook*. She also contributes to in-depth research related to global supply chains and labor markets. Maselli, who is an Italian and Belgian citizen, worked previously at the Brussels-based think tank the Centre for European Policy Studies (CEPS); her latest position was Research Fellow.

Konstantinos Panitsas is a Research Associate in the Economy, Strategy, and Finance Centre at The Conference Board in Brussels. He contributes to several key projects with his data analytics, including the C-Suite Challenge™ survey. In 2017, Panitsas graduated from Hunter College of the City University of New York with an MA in Economics.

The authors would like to thank Dana Peterson, Chuck Mitchell, Anke, Schrader, Lynn Franco, and John Metselaar, for their thorough reviews, and Babette Plessers for editing and improving the text.

About the European Round Table for Industry (ERT)

The European Round Table for Industry (ERT) is a forum that brings together around 55 Chief Executives and Chairs of leading multinational companies of European parentage, covering a wide range of industrial and technological sectors. ERT strives for a strong, open and competitive Europe, with the EU and its Single Market as a driver for inclusive growth and sustainable prosperity. Companies of ERT Members have combined revenues exceeding €2 trillion, providing direct jobs to around five million people worldwide—of which half are in Europe—and sustaining millions of indirect jobs. They invest more than €60 billion annually in R&D, largely in Europe. For more info, visit https://ert.eu/.

About The Conference Board

The Conference Board is the member-driven think tank that delivers trusted insights for what's ahead. Its membership includes over 1,200 companies in both the established and emerging markets of the world. Its global community of leadership experts, which includes representatives from The Conference Board and a number of prominent companies, works to ensure members receive the practical knowledge they need to navigate the biggest issues impacting business and better serve society. Founded in 1916, we are a nonpartisan, not-for-profit entity holding 501(c)(3) tax-exempt status in the United States. For more info, visit https://conference-board.org/eu/.

For additional information regarding the methodology for The Conference Board Measure of CEO Confidence™ for Europe by ERT see "*Surging Confidence Among European Business Leaders Despite Strains on Supply Chains*", The Conference Board, May 2021. To access and download the historical data, please visit Data Central at: https://data-central.conference-board.org/.